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Document produced on
28 January 2025 at 8:35am CET
Document published on
28 January 2025 at 8:35am CET

MIDCAP

EQUITY RESEARCH

ARVERNE GROUP ACT

BUY

NEWS
Company call

TP 9.5€
Up/Downside: 138%

New geothermal project

Arverne, through its subsidiaries 2gré and Arverne Drilling Services, is participating in a geothermal project for a heat network, supported by government subsidies. The contract will generate revenue starting in 2026 and adds to a pipeline of 10 identified projects. Our BUY rating and target price are reiterated.

A project estimated at several million euros with future recurring revenue

Arverne has announced that its subsidiaries, 2gré and Arverne Drilling Services, will act as minority stakeholders (alongside Dalkia and IDF) in a geothermal project aimed at creating a heat network. The total investment is estimated at €90 million, including the network, the plant installation, and the doublet (two wells). According to our estimates, this contract is expected to contribute several million euros to the group's revenue starting in 2026. Similar to the recently completed geothermal project for ADP, Arverne will act as a service provider (with no capex commitment), handling well design, drilling, and the power components of the installation. Additionally, this project is expected to generate recurring revenue from well maintenance over a 30-year concession period.

Favorable outlook for geothermal energy in France

This contract adds to a pipeline of 10 identified projects presented in September 2024, further enhancing Arverne's visibility on future activity. We note that ADEME and the region will subsidize this project by more than 30%, based on our initial estimates. Furthermore, government support for geothermal projects – currently accounting for just 1% of heat production in France, despite a potential exceeding 15% – appears to be strengthening. This is a positive signal for the sector's development.

Attractive Payback Periods in a capacity-constrained market

During a site visit at ADP on January 15, CEO Pierre Brossollet emphasized that it has become increasingly difficult to approve biomass projects in France without comparing them to geothermal solutions. The payback period for geothermal projects is estimated at approximately 10 years, or as low as 7 years with subsidies from the Heat Fund.
Arverne benefits from a strong operational leverage due to its internalized industrial tool, particularly in drilling. Capex for doublets (two wells) represents 50% of total project costs, while control over drilling equipment ensures greater agility and independence, mitigating potential resource shortages. Arverne, through its subsidiary Drill Deep and its fleet of four drilling rigs, shares the French market with SMP. In a context of rising demand and limited capacity for deep drilling equipment, this gives Arverne a critical competitive edge to capitalize on the growing geothermal sector.

TP ICAP Midcap Estimates	12/23	12/24e	12/25e	12/26e
Sales (m €)	10.1	12.4	20.8	28.2
Current Op Inc (m €)	-13.8	-19.0	-25.5	-28.5
Current op. Margin (%)	na	na	na	na
EPS (€)	-1.50	-0.46	-0.62	-0.21
DPS (€)	0.00	0.00	0.00	0.00
Yield (%)	0.0	0.0	0.0	0.0
FCF (m €)	-35.6	-63.0	-92.8	-119.9

Valuation Ratio	12/24e	12/25e	12/26e
EV/Sales	6.6	8.3	10.5

Source: TPICAP Midcap

Research partially paid by the Issuer

Key data	
Price (€)	4.0
Industry	Utilities
Ticker	ARVEN-FR
Shares Out (m)	34.787
Market Cap (m €)	139.1

Source: FactSet

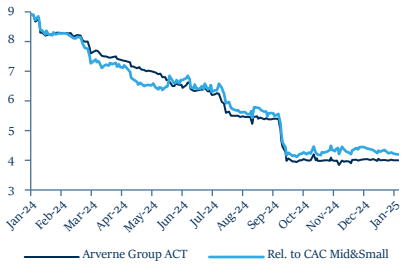
Ownership (%)	
ex-associés d'Arverne+Fondateurs	64.1
ADEME Investissement	9.3
Renault	8.3
Free float	18.4

Source: TPICAP Midcap estimates

EPS (€)	12/24e	12/25e	12/26e
Estimates	-0.46	-0.62	-0.21
Change vs previous estimates (%)	na	na	na

Source: TPICAP Midcap estimates

Performance (%)	1D	1M	YTD
Price Perf	0.0	-1.0	-0.5
Rel CAC Mid&Small	-0.3	-4.5	-3.1



Source: FactSet

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FINANCIAL DATA

Income Statement	12/21	12/22	12/23	12/24e	12/25e	12/26e
Sales	12.6	10.7	10.1	12.4	20.8	28.2
Changes (%)	180.5	-15.0	-5.8	22.9	67.7	35.7
Gross profit	11.5	9.9	9.5	10.2	17.1	24.0
% of Sales	91.5	92.8	94.3	82.7	82.0	85.0
EBITDA	**-2.2**	**-1.7**	**-16.0**	**-20.7**	**-20.2**	**-20.0**
% of Sales	-17.4	-15.9	-158.7	-166.9	-97.1	-70.7
Current operating profit	**-2.4**	**-2.7**	**-13.8**	**-19.0**	**-25.5**	**-28.5**
% of Sales	-19.1	-24.9	-137.0	-153.2	-122.8	-100.8
Non-recurring items	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	-2.4	-2.7	-13.8	-19.0	-25.5	-28.5
Net financial result	-0.0	-0.1	4.1	2.4	0.5	-4.2
Income Tax	-0.0	-0.0	1.0	1.5	3.5	4.4
Tax rate (%)	-1.6	-1.0	0.0	25.0	0.0	0.0
Net profit, group share	**-2.4**	**-1.6**	**-52.0**	**-16.0**	**-21.6**	**-7.4**

Financial Statement	12/21	12/22	12/23	12/24e	12/25e	12/26e
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0
Tangible and intangible assets	8.8	11.2	58.6	105.3	172.3	263.7
Right of Use	0.0	0.0	0.0	0.0	0.0	0.0
Financial assets	0.3	0.0	0.0	-0.0	0.1	0.5
Working capital	1.3	-2.4	0.2	2.5	4.5	8.7
Other Assets	0.0	0.0	3.4	3.4	3.4	3.4
Assets	10.3	8.8	62.3	111.2	180.3	276.4
Shareholders equity group	3.1	-5.6	164.1	148.1	126.5	119.1
Minorities	0.1	0.7	14.3	12.2	11.6	-8.9
LT & ST provisions and others	0.2	0.0	2.2	2.1	2.1	2.1
Net debt	6.8	13.6	-123.8	-57.0	34.3	158.4
Other liabilities	0.1	0.0	6.1	6.4	6.4	6.4
Liabilities	10.3	8.8	62.3	111.2	180.3	276.4
Net debt excl. IFRS 16	6.7	13.6	-124.4	-57.6	33.7	157.8
Gearing net	2.1	-2.8	-0.7	-0.4	0.2	1.4
Leverage	-3.1	-8.0	7.7	2.8	-1.7	-7.9

Cash flow statement	12/21	12/22	12/23	12/24e	12/25e	12/26e
CF after elimination of net borrowing costs and taxes	-0.9	-0.4	-9.1	-15.3	-19.8	0.8
ΔWCR	0.6	-0.5	-4.5	2.2	2.0	4.2
Operating cash flow	-0.3	-0.8	-13.6	-13.0	-17.8	5.0
Net capex	1.7	5.1	22.0	50.0	75.0	124.9
FCF	-2.0	-6.0	-35.6	-63.0	-92.8	-119.9
Acquisitions/Disposals of subsidiaries	0.6	0.0	0.0	0.0	0.0	0.0
Other investments	0.0	0.0	0.0	0.0	0.0	0.0
Change in borrowings	-0.3	-1.2	-7.4	-14.6	-80.0	-95.0
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0
Repayment of leasing debt	-0.0	-0.1	-0.2	0.0	0.0	0.0
Equity Transaction	0.6	0.0	98.2	0.0	0.0	0.0
Others	1.0	2.8	0.7	4.0	5.0	6.0
Change in net cash over the year	-1.7	-6.4	52.7	-77.6	-172.8	-214.9

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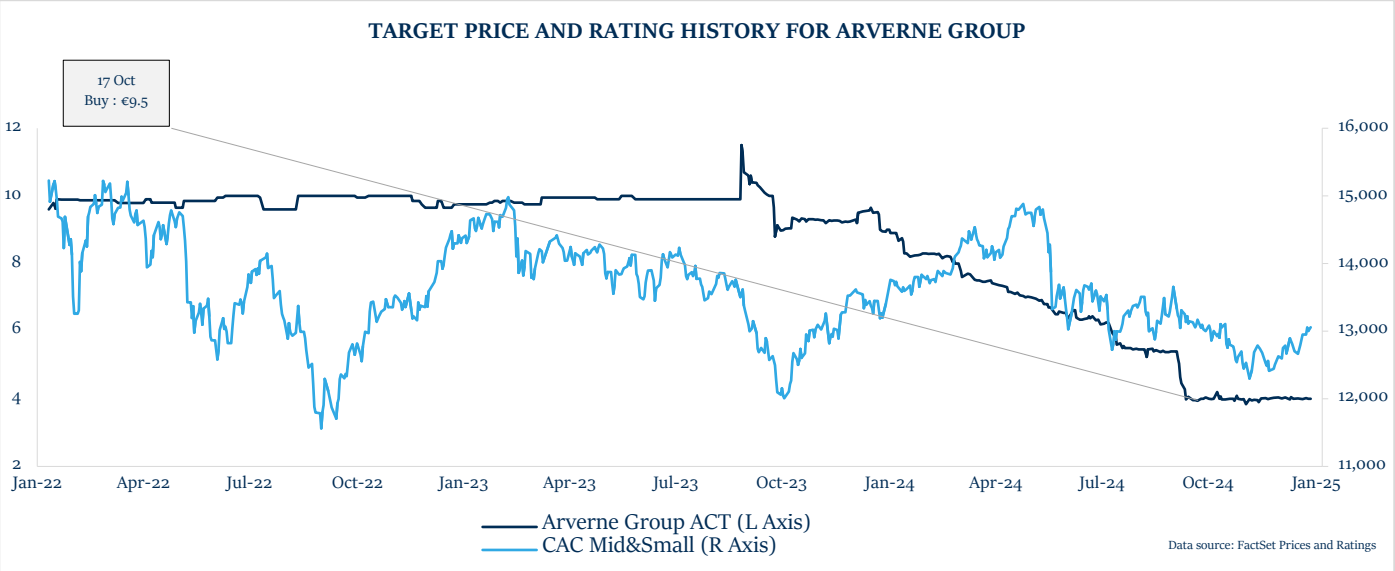
Methodology

This Report may mention evaluation methods defined as follows:
1. DCF method: discounting of future cash flows generated by the company's operations. Cash flows are determined by the analyst's financial forecasts and models. The discount rate used corresponds to the weighted average cost of capital, which is defined as the weighted average cost of the company's debt and the theoretical cost of its equity as estimated by the analyst.
2. Comparable method: application of market valuation multiples or those observed in recent transactions. These multiples can be used as references and applied to the company's financial aggregates to deduce its valuation. The sample is selected by the analyst based on the characteristics of the company (size, growth, profitability, etc.). The analyst may also apply a premium/discount depending on his perception of the company's characteristics.
3. Assets and liabilities method: estimate of the value of equity capital based on revalued assets adjusted for the value of the debt.
4. Discounted dividend method: discounting of estimated future dividend flows. The discount rate used is generally the cost of capital.
5. Sum of the parts: this method consists of estimating the various activities of a company using the most appropriate valuation method for each of them, then realizing the sum of the parts.

Conflict of Interests between TP ICAP Midcap and the Issuer

G. Midcap and the Issuer have agreed to the provision by the former to the latter of a service for the production and distribution of the investment recommendation on the said Issuer: Arverne Group ACT

History of investment rating and target price – Arverne Group ACT



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Distribution of Investment Ratings

Rating	Recommendation Universe*	Portion of these provided with investment banking services**
Buy	80%	63%
Hold	14%	71%
Sell	4%	17%
Under review	2%	100%

Midcap employs a rating system based on the following:
Buy: Expected to outperform the markets by 10% or more over a 6 to 12 months horizon.
Hold: expected performance between -10% and +10% compared to the market over a 6 to 12 months horizon.
Sell: Stock is expected underperform the markets by 10% or more over a 6 to 12 months horizon.

The history of ratings and target prices for the Issuers covered in this report are available on request at https://researchtpicap.midcapp.com/en/disclaimer.

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